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Can America Govern Itself?: Deficits, Debt, and Delay

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BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

Can America Govern Itself? Deficits, Debt, and Delay

Ron Haskins

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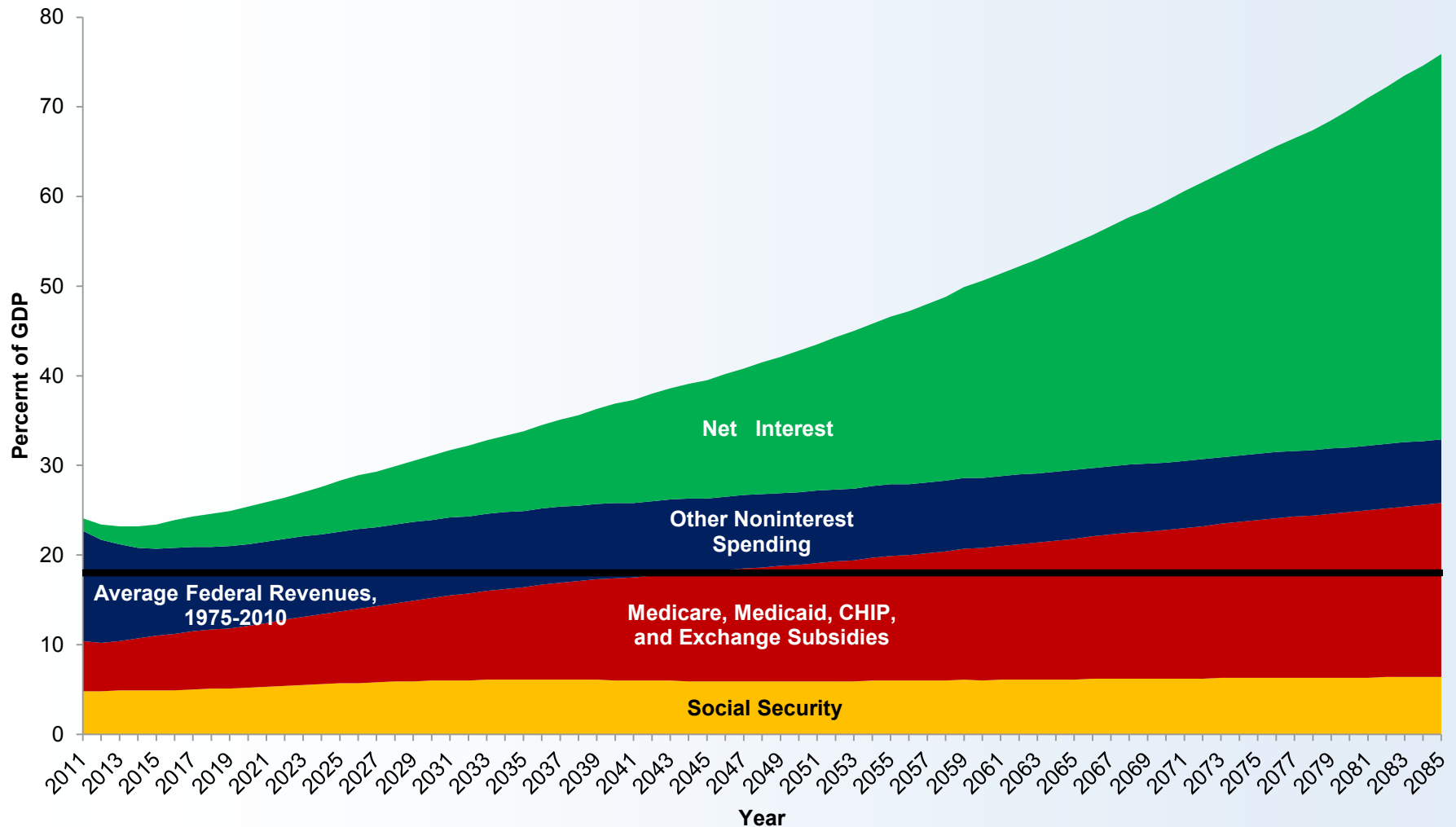
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Brookings Mountain West

University of Nevada, Las Vegas

October 30, 2013

The Big Picture: Unsustainable Spending



Sources: Spending: Congressional Budget Office, "Supplemental Data for the Congressional Budget Office's Long-Term Budget Outlook (June 2011)," available at <http://www.cbo.gov/doc.cfm?index=12212>. Revenues: OMB, Historical Table 1-2, *The President's 2012 Budget*, available at <http://www.whitehouse.gov/omb/budget/Historicals>. Note: Based on the Alternative Fiscal Scenario.

Why Deficits Matter

- Dependence on foreign lenders
- Rising interest costs
- Burden on future generations
- Limited ability to invest in children
- Limited ability to address emergencies
- Entitlement spending lockout

Burden on Future Generations



Baby Boomers as Leaches



The baby boomers inherited an economic miracle.



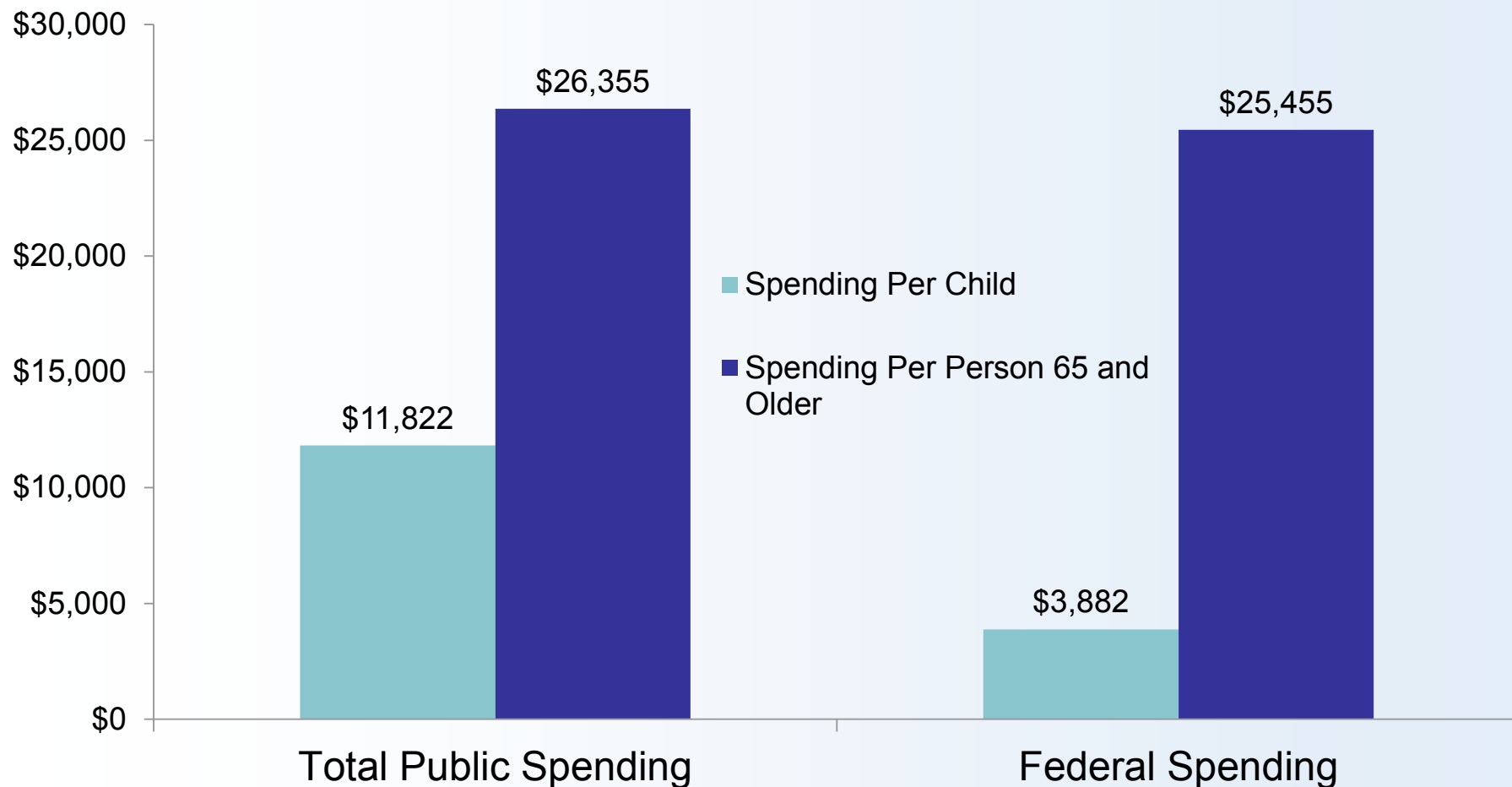
Then they sucked it dry. **BY JIM TANKERSLEY**



Two Burdens On Our Children and Grandchildren

- They must finance and pay off our spending
- Reduced spending on programs for children and programs that promote opportunity

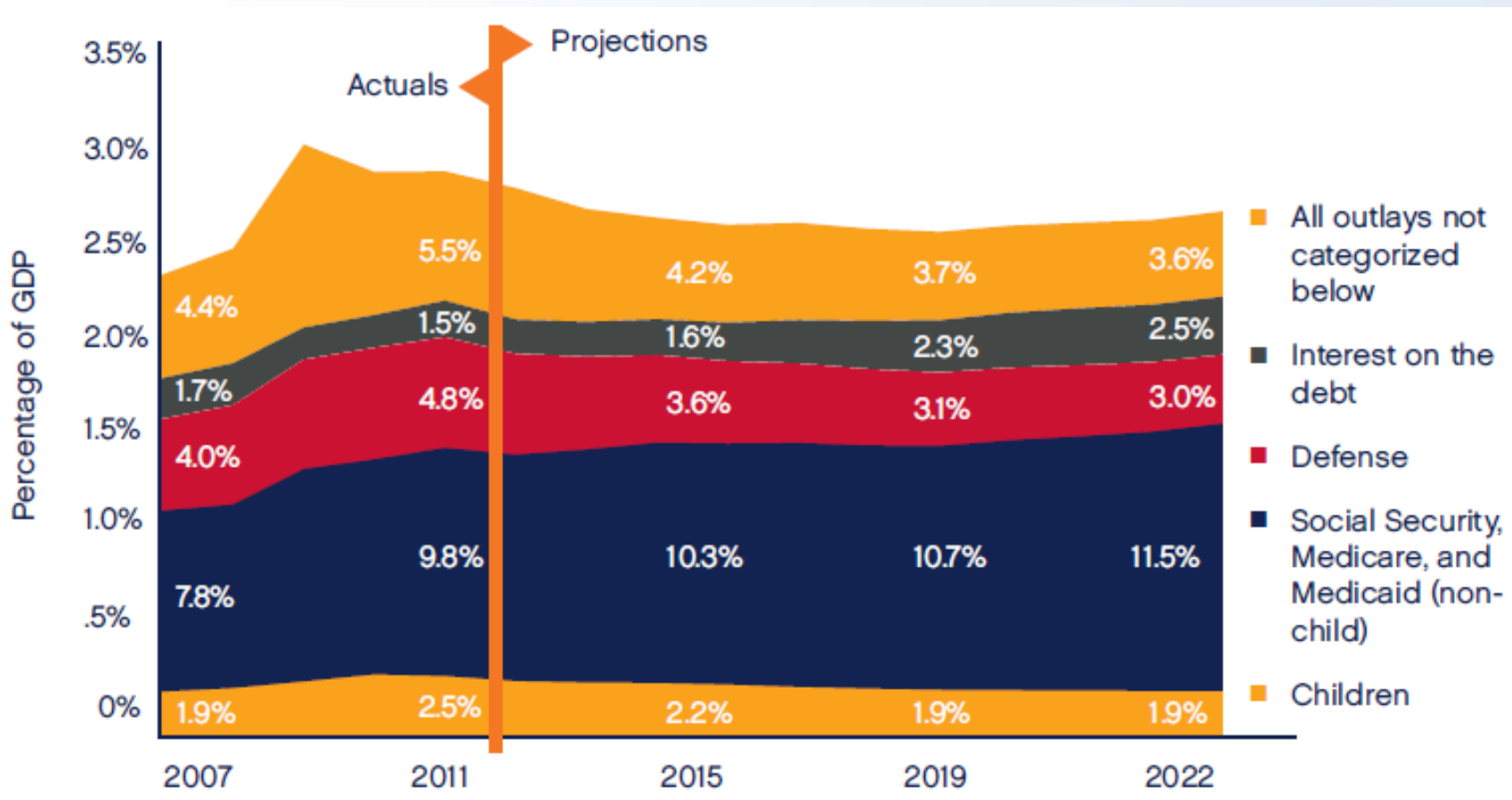
Spending on Children and the Elderly, 2011



Note: Tax expenditures are not included in these figures. The population of children (those under age 19) and elderly (age 65 and older) were used to calculate per capita amounts.

Source: Julia Isaacs and others, *Kids Share 2012: Report on Federal Expenditures on Children through 2011* (Washington: Urban Institute, 2012), Table 2.

Actual and Projected Outlays on Children and Other Major Items in the Federal Budget, 2007-2022



Note: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

Source: Julia Isaacs and others, *Kids Share 2012: Report on Federal Expenditures on Children through 2011* (Washington: Urban Institute, 2012), Figure 15.

Productive Investments in Children

- Preschool education
- Home visiting
- Teen pregnancy prevention
- Career academies
- K-12 education
- Second chance programs for teens
- Community and family-based programs for delinquents
- Community college interventions
- Small Schools of Choice

The Current Situation

The Ten Year Picture, 2014-2023 (% of GDP)

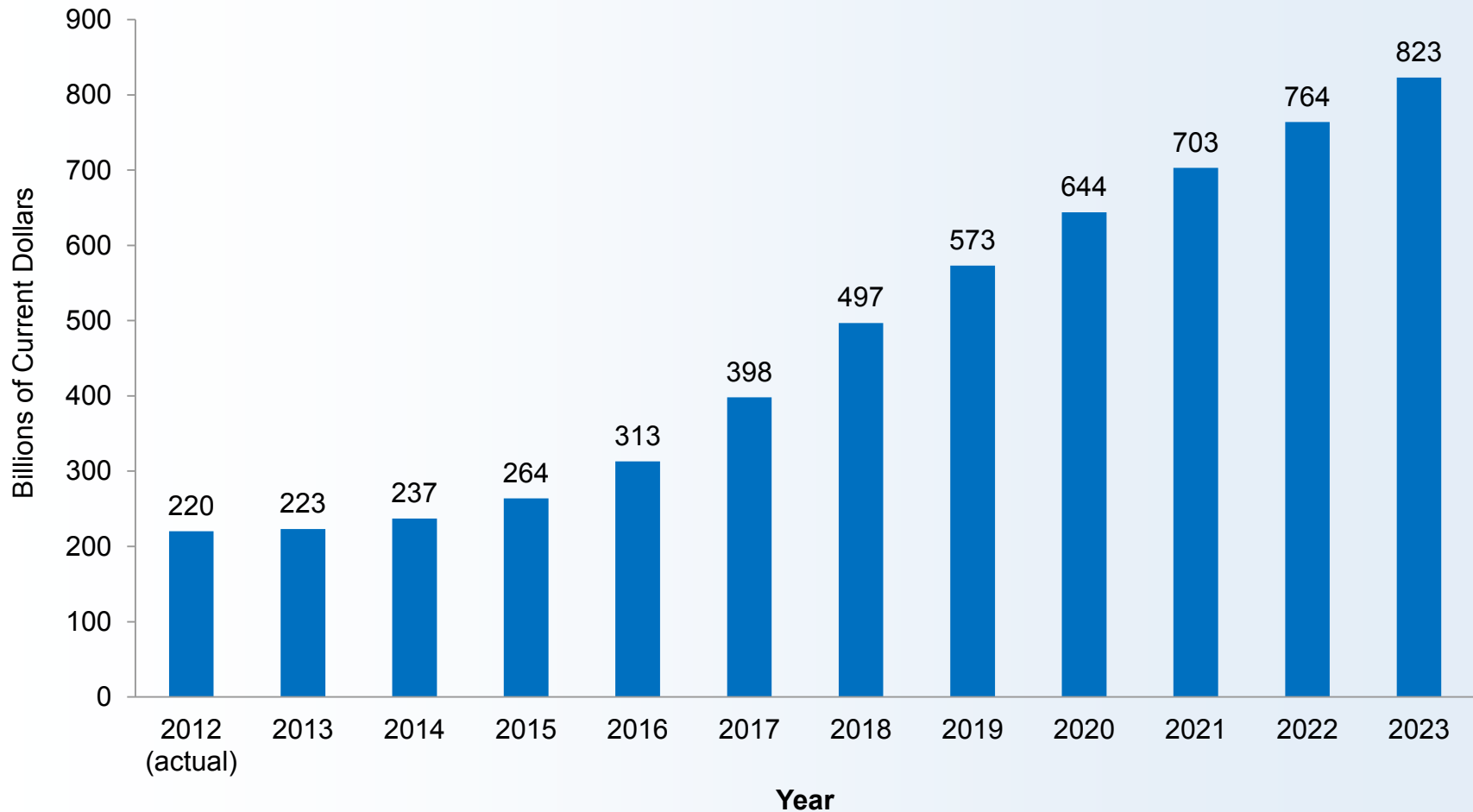
Budget Category	Year		
	2014	2019	2023
Spending	21.2	21.2	21.3
Revenues	17.7	18.1	18.3
Deficit:			
% GDP	-3.5	-3.1	-3.1
\$ (billions)	-\$611	-\$707	-\$938
Debt	73.9	69.9	73.0

Deficit Projections, 2013-2023

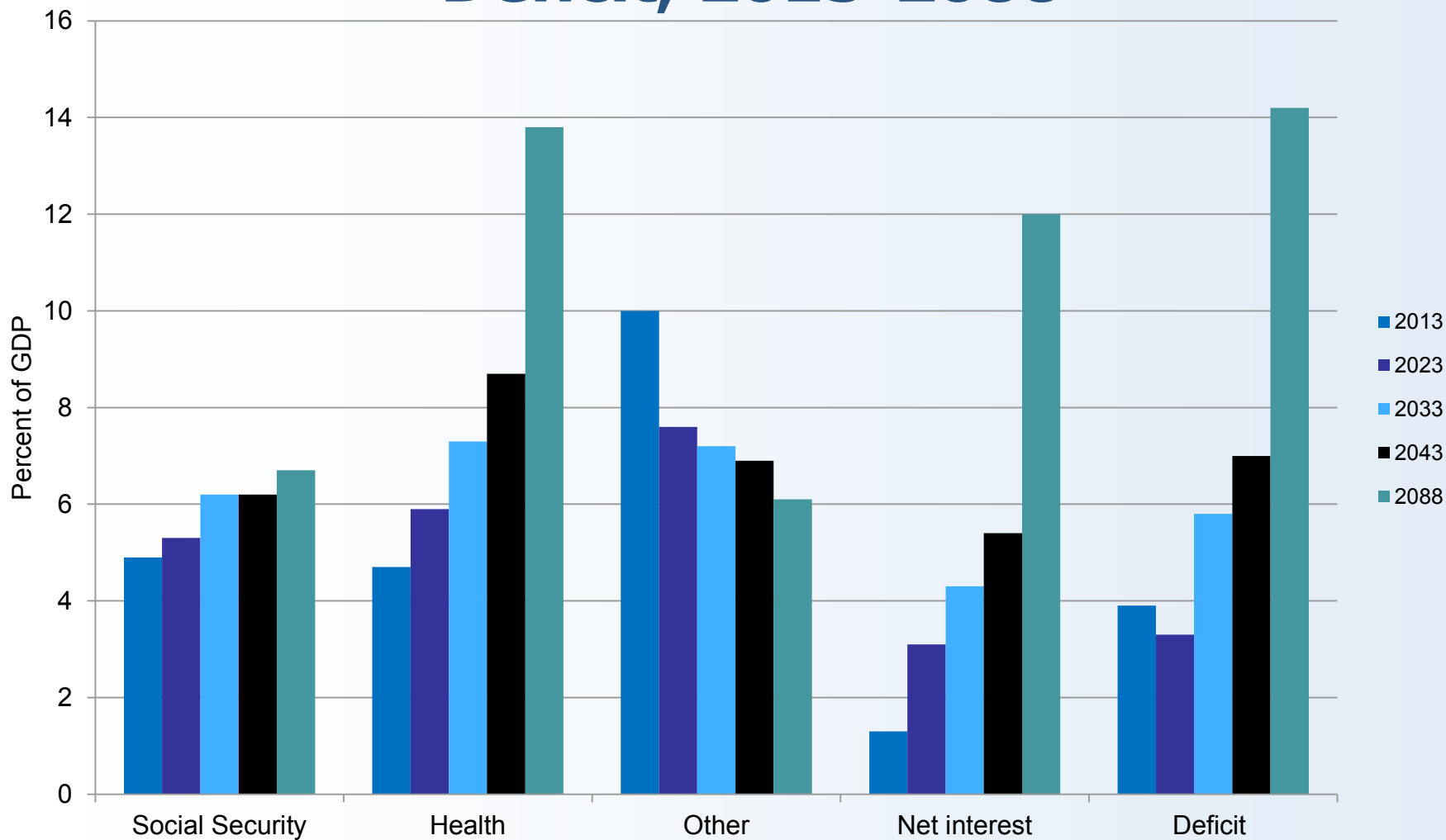


Note: Based on the Alternative Fiscal Scenario.
Source: Congressional Budget Office

Rising Interest Costs



Categories of Spending and Growth of the Deficit, 2013-2088



Deficit Reduction So Far

Source	2014-2023 Savings
American Taxpayer Relief Act	\$850 billion
Budget Control Act	\$1,075 billion
Continuing Resolutions in FY2011	\$760 billion
Grand Total	\$2.7 trillion

Ten-Year Sequester Savings, 2014-2023

Savings Category	Savings (billions)
Defense discretionary	-\$491
Non-defense discretionary	-\$329
Medicare	-\$72
Other mandatory	-\$48
Subtotal	-\$941
Interest	-\$200
Total	-\$1,141

Now What?

1. The recent agreement; continuing appropriations, October 17, 2013
2. Budget Conference Committee
 - Conferees named (22 Senators, 7 Representatives)
 - Report by December 13

Impending “Fiscal Speed Bumps” 2013-2014

**December 13,
2013**

Budget conference
committee reports its
recommendations

January 1, 2014

“Doc Fix,” farm bill,
unemployment
benefit expansion, &
tax extenders all
expire

January 15, 2014

Continuing resolution
expires, second
sequester on
mandatory funding
takes effect, first set
of IPAB
recommendations
are proposed

**Late February-
Early March,
2014**

Extraordinary
measures to avoid
debt ceiling are
exhausted

Concurrent Budget Resolution

- Supposed to be passed by April 1 every year
- House and Senate plan for action on the federal budget
- Could contain instructions to committees on:
 - » Sequestration spending caps
 - » Tax reform
 - » Entitlement reform
- Put budget on downward path
- Reform sequestration

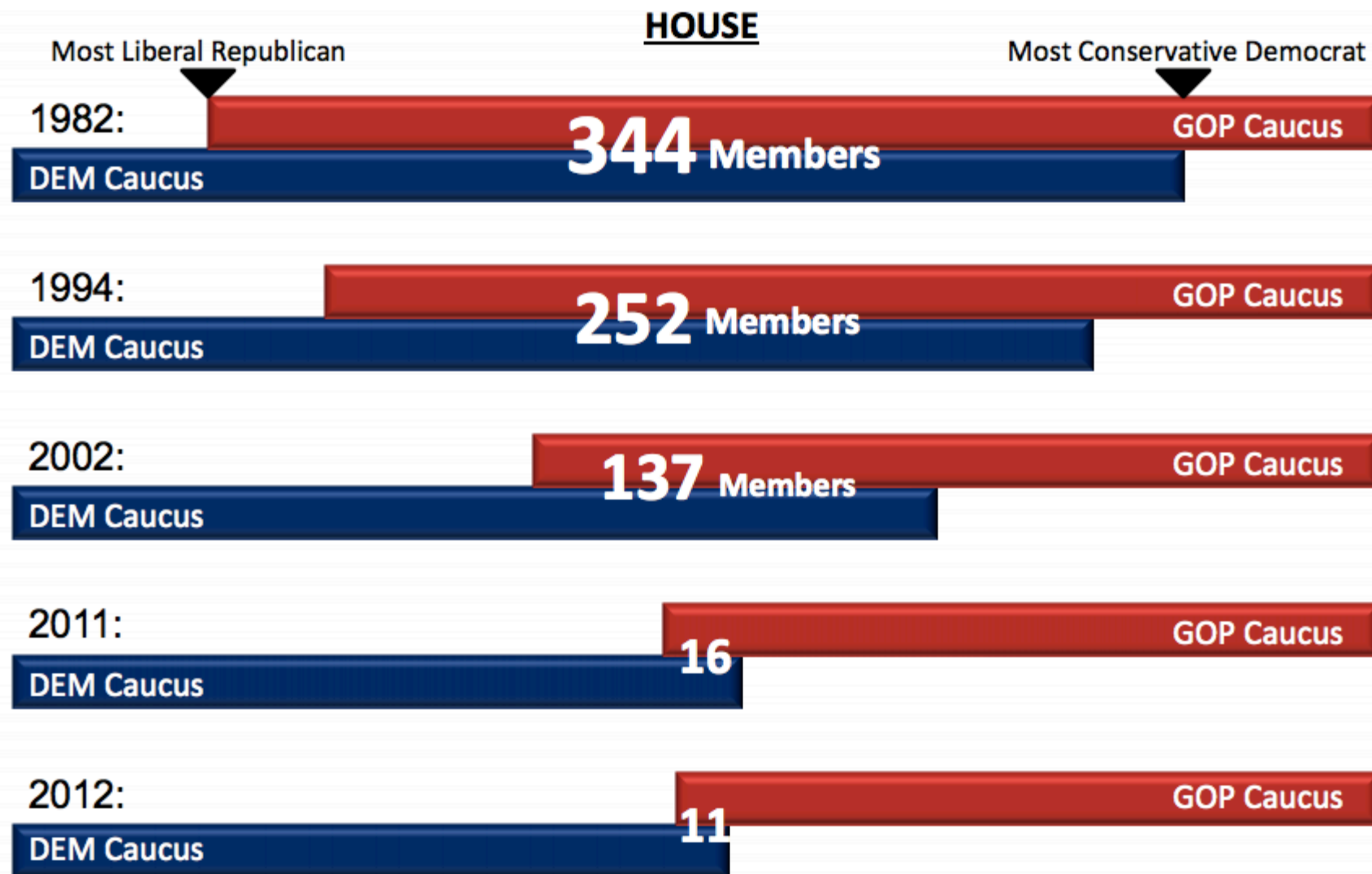
Who Is at Fault?

- The President
- Congress
- The People

Can President Obama Cut a Deal?

- President Reagan
 - » 1983 Social Security reform
 - » 1986 tax reform
 - » Increased defense spending
- President Clinton
 - » Welfare reform
 - » Balanced budget
 - » NAFTA
- President Bush
 - » No Child Left Behind
 - » Energy legislation
 - » TARP

The political middle has disappeared.



Source: National Journal Vote Rankings from a presentation by Mehlman Vogel Castagnetti

Would the Public Support Entitlement Reform?

Question	Yes (%)	No (%)
Would you support reform of Social Security and Medicare as part of debt reduction?	34	57
Would you support reform if it were gradual and would not affect anyone over age 60?	55	35
What if the reforms were accompanied by closing tax loopholes of the wealthy?	61	27

The Big Problem

- The insidious danger: borrowing from the future to pay for present consumption has become an addiction.
- In the last 54 years, we have had 5 years of a balanced federal budget.